

# SUBCOMMITTEE No. 4

## TRANSPORTATION, PUBLIC SAFETY, and STATE ADMINISTRATION

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# TRANSPORTATION

## OVERVIEW

### ***Governor's Transportation Financing Proposal Still Lacks Detail and Information***

As part of the 2002-2003 mid-year revision, the Governor proposed various fund shifts and transfers from transportation to the General Fund. In total, the Governor's re-financing proposal identified nearly \$1.8 billion from transportation. However the majority of these savings were based primarily on budget-year actions, and not all savings were attributable to the General Fund. Key provisions of the proposal included the following:

- Suspend the \$1.05 billion transfer of the sales tax on Gasoline from the General Fund to the Transportation Investment Fund (TIF) for the 2003-04 fiscal year. The result of this action will eliminate \$678 million from the TCRF, \$147 to the State Transportation Improvement Program (STIP), \$147 million for local streets and roads, and \$74 million to the Public Transportation Account.
- Cancel the \$500 million General Fund loan repayment to the TCRF scheduled for the 2003-04 fiscal-year.
- Transfer \$100 million from the TCRF balance to the General Fund.

Prior to the start of the 1<sup>st</sup> Extraordinary Session this year, Senate policy and fiscal staff prepared an analysis of the mid-year transportation proposals. Focusing on the TCRP items, staff identified numerous issues that needed to be resolved before the subcommittee could make an informed decision regarding these proposals. Specifically, staff identified issues with the overall lack of detail and intent regarding the future of the TCRP. As discussed in later in this analysis, the Administration indicated its desire to merge the TCRP with the STIP, thus eliminating the TCRP all together. Subsequently staff recommended that the Senate defer action on all budget-year items until the Administration provided a more detailed and thorough proposal.

The Governor's 2003-04 Budget, released on January 10, does not address the issues and concerns staff identified for the members. It is clear that no further information, nor detail will be provided for the TCRP/TIF proposals. The Administration states that their plan is to have the Transportation Commission (CTC) work with locals to identify and re-prioritize TCRP and STIP projects. The following analysis highlights the weaknesses of this approach.

### **TCRP or STIP Projects will not Receive Funding**

A major component of the Governor's proposal is to shift administrative responsibility for the Traffic Congestion Relief Program (TCRP) from Caltrans to the Transportation Commission (CTC). Although the Administration has not provided trailer bill language that specifies how the CTC will administer the TCRP, the Administration proposes to shift the TCRP projects into the STIP. Based on the limited

information provided to the Legislature at the time this analysis was prepared, the Governor's proposal will result in a \$1.5 billion reduction to the TCRP. (See Appendix A for background/history of the TCRP). Additionally, **the Administration has not identified a revenue stream to fund both STIP and TCRP projects** if this proposal is approved.

The TCRP authorized \$4.9 billion for 159 specific projects over a 5-year period. If the TCRP projects are to be incorporated into the STIP, the Regional Transportation Planning Agencies (RTPAs) will have to prioritize TCRP projects in relation to their existing STIP projects. Given the status of the State Highway Account (discussed further in the next section), and the anticipated reduction of federal funds, the STIP cannot absorb the commitments made in the TCRP. A likely scenario will require the RTPAs to reconfigure their Regional Transportation Improvement Programs (RTIP; local portion of the STIP) and determine which projects to continue funding and which projects to defer or eliminate altogether.

#### Transportation Revenues are Down, and Expenditures Have Increased

State and federal revenues for the STIP are significantly lower than projected in the 2002 STIP fund estimate. According to new estimates released by Caltrans to the CTC, the STIP is projected to have a \$4 billion cash shortfall over the next five years. The projected cash balance in the SHA for the current fiscal year is a \$173 million shortfall. The SHA deficit increases to \$634 million for the 2003-04 fiscal year.

The STIP revenue reduction can be attributed to the following factors:

- Projected \$566 million federal Revenue Aligned Budget Authority (RABA) funding increase over the next five years will not occur.
- Anticipated 20 percent increase in federal funds for the 2003-04 fiscal year will not occur. Caltrans estimates a \$600 million total reduction of Federal revenues.
- Loss of truck weight fees due to the implementation of SB 2084. The new truck weight fee system was intended to be revenue neutral. However, Caltrans projects an annual revenue reduction of \$163 million beginning this fiscal year.
- Lower TIF transfer as a result of gasoline sales tax revenue decline. (Approximately \$74 million lower in 2003-04).

Annual expenditures from the State Highway Account have increased significantly in response to efforts to speed the delivery of capital projects and reduce the traditionally high cash balances in the SHA. During the 2001-02 fiscal year, SHA expenditures exceeded account revenues by approximately \$1 billion. Expenditures are projected to exceed revenues between \$500 million and \$1 billion annually over the next three years because of the continuing emphasis on accelerated project delivery.

#### Transportation Impacts

The Governor's budget revision has already had an effect on the TCRP and the STIP. The CTC on December 12, 2002 voted to suspend all new financial allocations for projects in the TCRP and the STIP at least until February 2003. Projects which earlier were given allocations and are in various stages of completion have been put in limbo.

*Short Term Effects:* The proposed loss of gasoline sales revenues and the related loan forgiveness to the TCRP has resulted in the CTC's December action to freeze project funding allocations for two months. This action has delayed 64 funding allocations. This, in turn is forcing local transportation agencies to ponder whether to sign pending contracts, order rail and other equipment or make other binding current year and future commitments. Agencies do not know whether or when funding might resume for projects

in progress. Local agencies fear contractor lawsuits if funding is delayed or curtailed for projects under contract or those where preliminary work or resource marshaling has begun.

The Governor's transportation proposal is, in a technical sense, heavily-weighted toward the 2003-04 budget-year. However, the short-term effects are real and significant, as in the above-described project allocation freeze. The proposed funding suspension not only involves funds for the Traffic Congestion Relief Program, but the resulting allocations freeze is across the board and includes STIP projects, too.

*Longer Term Effects:* The loss of the sales tax revenues in the Budget Year will leave the TCRP approximately \$1.5 billion short of the funds needed for the approved, and statutorily – endorsed, congestion relief projects. This is equivalent to approximately 25% of the funds promised for the program over its six years. The Governor's Proposal suggests that these underfunded projects should compete with other approved state and local transportation projects (in the STIP). Essentially, the situation would be one of too many projects chasing too few dollars.

The competition for remaining funding between TCRP and STIP projects would require the delay and/or abandonment of numerous transportation projects, especially in greater Los Angeles and the Bay Area, due to the concentration of TCRP projects in those two regions. The Department of Transportation and regional transportation agencies would have to reconstitute their respective transportation programs, either formally or informally. Project delays would increase the projects' ultimate costs while project abandonment would impede statewide mobility and increase congestion. The state would fall further behind in its attempts to maintain and expand the transportation infrastructure.

#### Legislative Options

These proposed reductions come at a time when transportation revenues are already below projections. As previously mentioned, the SHA has a projected cash shortfall of \$173 million in the current fiscal year and a \$634 million shortfall in the 2003-04 budget-year. The Legislature needs to address the financial status of the highway account even without funding issues posed by the Governor's refinancing proposal.

The Governor's budget revision proposals have thrown a cloak of uncertainty over both the Traffic Congestion Relief Program (TCRP) and the State Transportation Improvement Program (STIP). While the administration has suggested that it intends to fold the TCRP projects into the STIP, it has proposed neither a trailer bill to achieve that objective nor a revenue source to fund all of the projects demanding revenue.

For the Legislature to consider meaningful alternatives to the Governor's mid-year proposals, the Administration must articulate their intent with respect to the future of the Transportation Congestion Relief Plan (TCRP) and the fiscal instability and deficiencies of the current STIP.

The following are issues and options for the Legislature to consider.

*Is the administration's proposal to reduce funding to the TCRP a one-time action, or is the proposal part of a broader effort to repeal the TCRP entirely and require regional agencies to fund TCRP projects on their own and through the STIP process?*

**Staff Comment:** If the proposal is a one-time reduction, the Legislature could simply modify the Governor's proposal by allowing the reduction now and requiring the General Fund to pay back the amount reduced at a future date (essentially extending the timeframe for the TCRP). If the proposal is to repeal the TCRP, see number 2 below.

*Given the current condition of the State Highway Account (SHA), the STIP cannot absorb the TCRP projects. Therefore, will the administration propose additional resources to fund those projects? If not, numerous TCRP projects will simply go without funding and will have to be delayed or cancelled.*

**Staff Comment:** The Legislature approved the TCRP projects in statute. To the extent that Members want to see the projects continue, they may wish to consider additional sources of revenue to fund the projects (e.g., statewide gas tax, regional gas tax, allow local to raise their own transportation revenues with a majority vote, etc.).

*Will the administration propose to suspend the gasoline sales tax transfer from the General Fund to the Transportation Investment Fund over more than one fiscal year?*

**Staff Comment:** If the administration proposes to suspend the gasoline sales tax transfer indefinitely as suggested, the condition of transportation funding will significantly diminish. While the General Fund would benefit from this action, over \$1 billion in annual funding would be lost for TCRP and STIP projects, local street and road maintenance, and transit operating and capital investments.

A broader issue to consider is the transportation sector's partial reliance on gasoline sales tax revenues from the General Fund. Notwithstanding the constitutional dedication of these funds to transportation, General Fund appropriations for transportation will likely be targeted for reductions as this budget crisis continues and future crises emerge. Policymakers should consider whether the volatility and vulnerability associated with this financing structure—and the project casualties and delays caused by constant funding instability—is an acceptable situation. Members may wish to consider adopting more stable sources of transportation funding that would not rise or fall based on the General Fund's condition. Options could include looking at traditional transportation user fees or assisting local governments in raising their own transportation revenues.

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## 2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The state highway system comprises less than 9 percent of the total roadway mileage in California but handles approximately 54 percent of the miles traveled. The department also has responsibilities for congestion relief, transportation technology, environmental and worker protection, and airport safety, land use and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The budget proposes total expenditures of \$6.4 billion, a decrease of \$673.5 million (9.5 percent) from the current-year budget. .

### **Issue**

#### ***Department Proposes to Eliminate Significant Number of Positions***

Caltrans proposes to eliminate a total of 1845.9 positions (1344.9 personnel years) in the 2003-2004 budget-year. Specifically the department proposes the following position reductions:

- |  |          |
|--|----------|
| • Expiring limited-term positions  | -105.7   |
| • Expiring limited-term transportation permit positions                          | -15      |
| • Reduction in enhanced services to locals positions                             | -30.5    |
| • Elimination of Traffic Congestion Relief Program (TCRP) Positions              | -1,223.7 |
| • Position reduction through attrition to generate State Highway Account savings | -471     |

The Governor states in the budget summary that the positions associated with the TCRP are being eliminated due to the uncertainty surrounding the program. The 1,223.7 TCRP positions were authorized when the TCRP was created in statute. Since the Administration's proposal is to re-prioritize TCRP projects with the STIP, Caltrans is anticipating a decrease in workload demand in the likely scenario that TCRP projects are not carried forward. Essentially the proposal to eliminate the TCRP positions presumes the decision to delete funding for the TCRP projects in the budget-year and possibly beyond.

The Administration has declared that is committed to restoring the level of positions needed to deliver high-priority TCRP projects if alternative financing is identified to continue funding the TCRP projects, or transportation agencies reprioritize projects within their regions to retain such projects.

The subcommittee will not have the official proposal until the department submits the Capital Outlay Support (COS) finance letter prior to the May revision. Caltrans has to establish its capital outlay workload demand for the upcoming budget-year in order to determine its staffing needs. This process has put the Legislature in a position of having to make difficult decisions regarding state staff and contracting out positions in a very limited time frame. The subcommittee on average has less than one week to approve, modify, or deny the Administration's COS budget proposal.

In light of the department's unofficial proposal to eliminate 1223.7 positions from the TCRP, and the likely reductions in the COS staffing budget, staff will recommend the subcommittee deny all position reduction proposals. By the time Caltrans' budget is heard on April 23, staff recommends the Subcommittee request that Caltrans and Finance provide the 2003-04 COS budget proposal, including all documentation used to establish the COS budget.

## 2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The HSRA is required to prepare a plan for the financing, construction, and operation of a high-speed network for the state that would be capable of achieving speeds of at least 200 miles per hour. The HSRA has completed its business plan, initial finance plan, and currently is completing an initial program EIR and related technical studies.

### *Issues*

#### ***Uncertain Future of the HSRA***

The Administration proposes to consolidate the HSRA with Caltrans, beginning in the 2003-2004 budget-year. As stated in the Governor's budget summary, the Administration seeks to "bring the transportation expertise of Caltrans to the high-speed rail project." If approved, the HSRA board would continue to exist, but Caltrans staff would assume responsibility for support and administration of the program. This proposal could provide as much as \$589,000 (thousand) in special fund(s) savings.

Caltrans rationale for eliminating the HSRA is that the department has both experience and knowledge with rail capital projects through the Mass Transportation program and the partnership with Amtrak. However, the decision to designate Caltrans as the lead agency for the high-speed rail project does raise questions, including whether the department has relevant expertise or experience with "high-speed" rail issues.

First, given the department's notorious track record with project delivery, is it wise to have Caltrans assume the lead on a project that is arguably the biggest public works project in California over the past 40 years?

Second, the timing of this proposal is questionable. Senate Bill 1856 (Costa, Chapter 697, Statutes of 2002) authorizes a \$9.95 billion bond measure on the ballot in 2004 to help fund the planning and construction of the high-speed rail passenger system. How will the Administration's proposal affect the long-term viability of the program? Could eliminating the HSRA jeopardize the passage of the high-speed rail bond?

Given some of the policy concerns with the Administration's proposal, the fiscal and policy committees should try to resolve these issues before taking action on this item.

## 2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale and disposal of vehicles.

The budget proposes total expenditures of \$681.9 million, a decrease of \$4.2 million (0.6 percent) from the current-year budget.



<b>Summary of Expenditures</b> (dollars in thousands)	2002-03	2003-04	\$ Change	% Change
General Fund	\$1,598	\$1,114	(\$484)	-30.3
State Highway Acct.	41,005	59,727	18,722	45.7
Motor Vehicle Acct.	355,297	389,272	33,975	9.6
New Motor Vehicle Board Acct.	1,703	1,708	5	0.3
Motor Vehicle License Fee Acct	269,609	213,079	(56,530)	-21.0
Motor Carriers Permit Fund	3,033	0	(3,033)	-100.0
Harbors and Watercraft Revolving Fund	2,066	4,503	2,437	118.0
Reimbursements	11,859	12,524	665	5.6
<b>Total</b>	<b>\$686,170</b>	<b>\$681,927</b>	<b>(\$4,243)</b>	<b>-0.6</b>

### Highlights

#### **Additional Fees Proposed to Protect the Motor Vehicle Account**

The MVA is the primary funding source for DMV and the California Highway Patrol (CHP). Over the past few years program expenditures from the MVA have increased significantly while revenues to the account have remained relatively stable. Additional pressures have been put on the MVA as a result of CHP's homeland security responsibilities. The budget assumes \$74.5 million in federal funds to offset these costs, however the MVA remains the fund source until the federal funds are available. In light of these issues, the Administration is proposing additional fees to help stabilize the MVA. Specifically the new and adjusted fees include the following:

		<b>Amounts</b>	
<b>New MVA Fees for 2003-04</b>	<b>Projected Revenues (\$ in thousands)</b>	<b>Old Fee Whole Dollars</b>	<b>New Fee Whole Dollars</b>
Increase ID fees from \$6 to \$20 for non-seniors; seniors free	8,745	\$6	\$20
Activate Business Partner Automation Program fee and increase from \$2 to \$3	1,950	Authorized in current statute at \$2.00 but fee has never been implemented.	\$3
Increase Non-Commercial Driver's License fees, from \$15 for five years to \$24 five years.	30,100	\$15	\$24
Increase Vehicle Registration base from \$28 to \$31 and increase the two CHP \$1 surcharges to \$2 each - a total VR increase of \$7.00	94,850	\$28.00 base plus two \$1 surcharges - totals \$30	\$31.00 base plus two \$3 surcharges - totals \$37
Standardize various transaction fees to \$15.00	15,500	Existing fees range from \$2.00 to \$15.00	\$15 each
New Public Safety Surcharge - to offset MVA expenditures	30,940	New surcharge, currently does not exist.	Up to 2% percent on intrastate telephone calls (0.25% for 2003-04).

These fees are expected to generate approximately \$194 million in revenues for the MVA, and provide a 3 percent reserve in the account.

# STATE ADMINISTRATION

## ***LEGISLATIVE/EXECUTIVE***

This section includes the budgets of constitutional officers, the Legislature, and agency secretaries. Departments with reductions or augmentations other than normal operating expenses or elimination of vacant positions are highlighted.

### **0650 Office of Planning and Research**

The Office of Planning and Research (OPR) provides policy research for the Governor on land-use, growth planning issues and California Environmental Quality Act provisions. The budget proposes total expenditures of \$54 million, of which \$4.2 million is from the General Fund. This budget includes federal funding of \$48.3 million for California's AmeriCorps program.

#### ***Issues***

**Cesar Chavez Day of Learning Grants.** SB 984 (Polanco) of 2000 established Cesar Chavez Day as a state holiday for state employees and authorized school districts to establish a minimum day and provide one hour of instruction on the life of Cesar Chavez. The bill also appropriated annual grants of \$5 million to engage school pupils in community service on Cesar Chavez Day. The program serves more than 300 schools statewide.

The December Revision proposed that the \$5 million annual appropriation for Cesar Chavez Day of Learning Grants be reduced by \$4,750,000 in 2002-03. In addition, the budget proposes suspending the grants for the 2003-04 through 2005-06 fiscal years.

### **0860 State Board of Equalization**

The State Board of Equalization (BOE), the Franchise Tax Board (FTB), and the Employment Development Department are the state's major tax collection agencies. BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. BOE also assesses utility property for local property tax purposes, oversees the administration of the local property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including FTB decisions under the personal income tax and bank and corporation tax laws. The budget includes \$321.4 million or 0.4 percent more than the current-year level.

**Issues**

**Administration of the Cigarette and Tobacco Products Tax Program.** The budget proposes to augment the budget to implement the pilot program in Chapter 881, Statutes of 2002, which requires BOE to replace the current cigarette stamps and meter impressions with encrypted stamps or meter impressions that can be read by a scanning or similar device. The budget includes \$294,000 (\$34,000 GF) in the current year for implementation costs and \$678,000 (\$77,000 GF) in the budget year for on-going costs.

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**0954 Scholarshare Investment Board****Issue**

The Governor's Merit Scholarships provide \$1,000 scholarship savings accounts to ninth through eleventh grade students based on their Stanford - 9 standardized test scores.

The Distinguished Math and Science Scholars Program provides \$2,500 scholarships to those students who qualify to receive the \$1,000 Governor's Merit Scholarships and who achieve the highest scores on advanced placement tests in calculus and either of the biology, chemistry or physics exams. Eligibility was expanded in 2001 to include students who took AP tests prior to January 1, 2000 and otherwise met test score criteria and those students who achieved equivalent levels on an International Baccalaureate test.

The budget proposes to appropriate \$15.4 million to fund grants for only the 11<sup>th</sup> grade students. The 9<sup>th</sup> and 10<sup>th</sup> grade students would receive their awards only after completion of the 11<sup>th</sup> grade. This proposal would result in savings of \$39.6 million in 2003-04.

**STATE AND CONSUMER SERVICES AGENCY**

This section includes the budgets of the Science Center; the Department of Consumer Affairs (including all bureaus, boards programs and divisions), Department of Fair Employment and Housing, Franchise Tax Board, Department of General Services, State Personnel Board, Public Employees' Retirement System, and State Teachers' Retirement System. Departments with reductions or augmentations other than normal operating expenses or elimination of vacant positions are highlighted.

**1110 Department of Consumer Affairs**

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department serves as an umbrella for 18 semi-autonomous boards and 11 bureaus and programs that regulate over 180 professions. The 2003-04 budget for Consumer Affairs, boards, bureaus, and divisions totals \$337 million, which is less than one percent higher than the current year funding.

**Bureau of Automotive Repair.** The budget proposes 3.6 additional personnel years in the current year and 20.2 in the budget year for the implementation of the enhanced Smog Check

The budget proposes to transfer \$2.0 million in the current year and \$3.3 million in the budget year from the High Polluter Repair or Removal Account to the Vehicle Inspection Repair Fund to repay a loan provided from that fund in the 2001-02 fiscal year. The 2001-02 budget contained a transfer of \$50

million from the High Polluter Repair or Removal Account to the General Fund. The 2001-02 mid-year revision also transferred an additional \$44 million in 2001-02.

This has reduced expenditures for the Consumer Assistance Program that pays qualified consumers who voluntarily choose to retire their-high polluter vehicles. The program also pays a portion of the consumer's repair bill in order to bring a vehicle into compliance with the requirements of the Smog Check Program. Expenditures for this program were \$46.4 million in 2000-01 and \$31.9 million in 2001-02. The budget proposes to reduce expenditures to \$21.1 million in the current year and \$20.4 million in the budget year due to the transfer of the funds to the General Fund and the loan repayment.

**Board of Architectural Examiners-Landscape.** The budget proposes a loan of \$1 million from the California Board of Architectural Examiners-Landscape Architects Fund to the General Fund. This would leave a fund balance of \$525,000, or about 75 percent of the annual expenditures.

**Board of Barbering and Cosmetology.** Effective January 1, 2003 the Board of Barbering and Cosmetology replaces the Bureau of Barbering and Cosmetology. There is an augmentation of \$609,000 to automate written examinations for all license categories.

**Contractors' State License Board.** The budget proposes a loan of \$5 million from the Contractors' License Fund to the General Fund. The \$11 million current year loan has a repayment date of September 2003. This proposed loan and the repayment of the current year loan would leave a 2003-04 fund balance of \$10.7 million or about 23 percent of the annual expenditures.

**Dental Board.** The budget proposes a loan of \$5 million from the State Dentistry Fund to the General Fund, in addition to the current year loan of \$5 million approved in last year's budget. This proposed loan would leave a 2003-04 fund balance of \$1.7 million or about 24 percent of the annual expenditures.

**Acupuncture Board.** The budget proposes a loan of \$1 million from the Acupuncture Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of \$1.0 million or about 33 percent of the annual expenditures.

**Court Reporters Board.** The budget proposes a loan of \$1 million from the Court Reporters Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of \$551,000 or about 87 percent of the annual expenditures.

**Board of Vocational Nursing and Psychiatric Technicians.** The budget proposes a loan of \$1 million from the Vocational Nurse Examiners Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of \$1.8 million or about 42 percent of the annual expenditures.

The budget also proposes a loan of \$1 million from the Psychiatric Technicians Account Vocational Nurse and Psychiatric Technician Examiners Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of \$395,000 or about 33 percent of the annual expenditures.

**Bureau of Security and Investigative Services.** The budget proposes a loan of \$4 million from the Private Security Services Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of about \$2 million or about 28 percent of the annual expenditures.

## 1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence. The budget year expenditures are proposed at \$16.6 million (\$12.6 million GF), which is a decrease of 24 percent from the current year.

In the current-year, the mid-year revision proposed to revert \$837,000 and 9 PYs related to vacant positions. In addition, the department lost nine PYs and \$472,000 (\$361,000 GF) due to Control Section 31.60, which called for the abolition of vacant positions. The workload related to these positions was funded through a one-time federal funding augmentation of \$1.6 million.

The budget proposes to reduce the budget by an additional \$3.1 million (GF) and 45 PYs. This is a reduction of nearly one-fifth of the staffing of the department. This proposal would also result in the closure of two field offices and reductions in a third office. This reduction would result in a major increase in the number of backlogged housing cases.

## 1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers the Personal Income Tax and the Bank and Corporation Tax Laws, and the Senior Homeowners and Renters' Assistance program. In addition, FTB provides processing services through contracts with other governmental agencies and performs audits and field investigations of campaign statements and lobbyist reports authorized by the Political Reform Act. The board began collecting delinquent child support payments under a permanent program last year. FTB is funded at \$445.2 million, of which \$402.8 million is General Fund. This amount is \$16.5 million or 3.5 percent less than budgeted in the current year.

### *Issues*

**Integrated Non-File Compliance (INC).** The INC program pursues taxpayers that do not file returns, but have tax liabilities over \$200. These individuals have income subject to taxes that have not filed a tax return. Of the budget year reduction of \$16.5 million, \$11.8 million is due to completion of the Integrated Nonfiler Compliance Project. Thus, these savings are due to the completion of a limited-term program rather than a reduction in services.

**E-File Tax Practitioner.** FTB is proposing the implementation of a program to mandate e-file for tax professionals who handle a high volume of California tax returns (100 or more) and currently submit those returns on paper. The mandatory program would affect only PIT returns. This program would result in savings of \$1.4 million (GF) and 50.5 PYs. Tax practitioners filing returns for 100 or more taxpayers include about 10,000 of the 40,000 tax professionals who conduct business in California. These practitioners, however, prepare about 60 percent of the personal income tax returns filed.

The customer of a tax practitioner that prepares 100 or more tax returns would not have the choice of filing a hard copy of their return themselves.

This same proposal was rejected by the Legislature last year.

**Augmentation for Implementation of City Business Tax Disclosure.** The budget requests increased reimbursement authority of \$355,000 and 4.4 PYs to implement Chapter 915, Statutes of 2001 (AB 63, Cedillo), which authorized FTB to disclose confidential tax information to city business tax officials. These costs will be fully reimbursed by the cities that use the information.

The information is used by city tax officials to identify individuals that report business income on state returns but do not have an active city business license within their city jurisdictional boundaries.

A similar request for funding of this chaptered legislation was denied by the Legislature last year.

**Political Reform Audit Program.** The budget proposes to change the funding for the Political Reform Audit Program. Currently, this program is funded from the General Fund. The budget proposes to

establish a new special fund (the Political Reform Audit Fund) to cover expenses of compliance audits. This proposal would impose a fee on candidates filing for elected public offices, lobbyists, lobbying firms, lobbyist employers, and certain political committees for deposit in the newly established fund. The new fee is proposed to generate \$1.36 million to pay for the audit costs.

## **1760 Department of General Services**

The Department of General Services (DGS) provides management review and support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the procurement of materials, data processing services, communication, transportation, printing, and security.

The budget for DGS is proposed at \$837.1 million, of which \$3.0 million is General Fund. The total budget is about \$32 million or 3.7 percent less than in the current year. The General Fund support is reduced from \$110.2 million in 2001-02 and \$17.0 million in the current year to \$3.0 million in the budget year.

### ***Issues***

**Rate Increase for the State Emergency Telephone Number Account (911 Account).** The budget proposes an increase in the fee charged on intrastate calls from 0.72% to 1.00%. This will increase revenues to this account by \$46.6 million to a total of \$181.2 million. The increased revenues will be allocated to the following departments: a) CHP - \$41 million, b) Health Services - \$3.6 million, and c) Forestry and Fire Protection - \$2.6 million. These are funding shifts rather than new revenues for new programs.

## **1920 State Teachers' Retirement System (STRS)**

The budget proposes to reduce the General Fund payment for teacher purchasing power maintenance by \$500 million in 2003-04. The proposal provides that the state would make a statutory commitment to restore the funds if purchasing power protection cannot be maintained at the 80 percent level through July 1, 2036. This action must be taken during the current fiscal year. The actuary for STRS has stated that the elimination of this payment would be actuarially unsound.

## ***BUSINESS, TRANSPORTATION, AND HOUSING AGENCY***

This section includes the budgets of the departments of Alcoholic Beverage Control, Financial Institutions, Corporations, Housing and Community Development, Office of Real Estate Appraisers, Real Estate, Transportation Commission, and Transportation. Departments with reductions or augmentations other than normal operating expenses or elimination of vacant positions are highlighted.

## **2180 Department of Corporations**

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries. The budget is proposed at \$28.3 million (State Corporations Fund).

**Issues**

The budget proposes an increase of \$3.2 million and 28.5 positions to transfer the regulation, enforcement, administration, and spending authority of the Office of Real Estate Appraisers to the Department of Corporations.

**2240 Department of Housing and Community Development**

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families and other special need groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The HCD budget is proposed to increase from \$446.1 million in the current year to \$647.2 million in the budget year. The General Fund support in the current year is \$15.1 million and is proposed at \$13.4 million in the budget year. In 2001-02, the total budget for HCD was \$305.4 million, of which \$91.7 million was from the General Fund.

**Issues**

**Proposition 46 (Housing and Emergency Shelter Trust Fund Act of 2002).** This November 2002 bond measure authorized \$2.1 billion for various housing programs. Local project bond expenditures will be \$255 million in the current year and \$463 million in 2003-04. Projects are as follows:

<b>LOCAL PROJECTS</b>	<b>In Millions</b>	
	<b><u>2002-03</u></b>	<b><u>2003-04</u></b>
State and Local Homeownership Programs for Lower Income Families	\$59.1	\$107.6
Farmworker Housing Projects	25.0	64.7
Affordable Multifamily Rental Housing, Supportive Housing, Student Housing and Local Housing Trust Funds.	109.7	193.5
Homeless Shelters and Transitional Housing	31.0	31.0
Financial Incentives to Communities that Increase Housing Production	25.0	25.0
Downpayment Assistance For Communities that Reduce Barriers to Housing		24.0
Preservation of Affordable Low-Income Housing	4.8	17.2

**Farmworker Housing Grants.** The budget proposes reducing Farmworker Housing grants from \$17.6 million to \$14 million in the budget year.

**Emergency Housing Assistance Grants.** The Emergency Housing and Assistance Program (EHAP) provides capital grants and operating funds for emergency shelters, transitional housing, and services for



homeless individuals and families. Proposition 46 included \$195 million for this program, but the funds are restricted to capital grants to shelter providers. The funds in the budget are for operating costs, which cannot be funded from Proposition 46 bond funds.

In 2001-02, this program received \$13.3 million. In the current year, the December Revision proposed that the grant of \$5.3 million be reduced to \$4 million. The Senate and Assembly both rejected this proposed reduction. The budget proposes to continue funding in 2003-04 at the \$4 million level.

This program could not adequately fund programs when it was funded at \$13.3 million. There are requests totaling more than the \$5.3 million budgeted in the current year. A further reduction in this program will deprive homeless persons.

#### **Housing Preservation Research Contract.**

The budget proposes to eliminate funding in the current and budget year for a \$65,000 (GF) contract to maintain and update the statewide database on assisted housing units at risk of conversion. HCD proposed awarding the contract to the California Housing Partnership Corporation (CHPC) and CHPC has been doing work under the contract since July. The Senate rejected eliminated funding for this contract in the First Extraordinary Session. Eliminating funding for this contract would jeopardize state and local efforts to use bond funds dedicated to preserving at-risk housing developments.

### **2310 Office of Real Estate Appraisers**

The Office of Real Estate Appraiser (OREA) administers a program for licensing of real estate appraisers in federally related loan transactions. The budget proposes to transfer the functions and \$3.3 million in funding for OREA to the Department of Corporations effective July 1, 2003. The Administration contends this will save \$150,000.

## ***TECHNOLOGY, TRADE AND COMMERCE AGENCY***

Managing the state's economic development efforts is the primary responsibility of the (TTCA). Its major programs are Economic Development, International Trade and Investment, Marketing and Communications and Tourism. The department also provides low-cost financing to public agencies for a variety of infrastructure and public improvements through the California Infrastructure and Economic Development Bank.

The TTCA budget for 2001-02 was \$184.1 million (\$71.9 million GF). The current year budget, adjusted for the December Revision, is budgeted at \$156.4 million. The Senate rejected the elimination of the Biomass Grants in the First Extraordinary Session, so the adjusted current year budget would be \$160.4 million (\$45.6 million). The budget year is proposed at \$108.6 million (\$21.4 million GF).

The 2002-03 budget for TTCA reduced by \$30 million, including an unallocated reduction of \$2 million to the foreign trade offices and an unallocated reduction of \$10 million to the department.

#### ***Issues***

**Manufacturing Technology Program (MTP).** This program is intended to improve the competitiveness of California small- and medium-sized manufacturers to create and retain high-wage, high-skill jobs. California's public and private sectors invest in MTP to sustain the state's leadership role in

manufacturing through the formation of joint state/federal/academic/private sector partnerships that provide targeted solutions for industry needs. The program requires one-third federal/two-thirds other funding requirement.

This program was funded at \$2.7 million in 2002-03.

**California Technology Investment Partnership (CalTIP).** The budget proposes to eliminate funding for this program, which provides matching funds for federal grant money to small- and medium-sized businesses to assist in the development of marketable technologies. Grants are typically \$150,000 to \$200,000 and used to match federal funds, although matching funds can come from other sources including private funds. This program included funding of \$4 million in 2001-02 and \$3 million in 2002-03.

From 1993-94 through the 2001-02, the state has provided \$45.6 million (GF). The state investment has been matched by \$250.6 million in federal funds and \$249.6 million in private funds.

**Film California First Program.** The budget proposes to eliminate funding of \$2.1 million in the current year and \$1.8 million in the budget year for Film California First Program. This reduces the program from the 2001-02 level of \$12.9 million (GF) to \$11.0 million in the current year and \$11.2 million in the budget year.

**Military Base Reuse and Retention Program.** The budget proposes to eliminate funding for this program. This program was funded at \$1.9 million in 2001-02 and \$0.9 million in the current year. Funding for this program was reduced in the current year because the next round of base closures has been delayed to 2005.

**Export Finance, Export Development, and Foreign Investment.** The California Export Finance Office (CEFO) seeks to expand California employment and income opportunities by promoting increased exports of California goods and services, including agricultural commodities by providing California exporters, particularly small- and medium-sized manufacturers, exporters, and agricultural enterprises with information and technical assistance. Funding for this program and other global economic programs was reduced from \$9.3 million in the current year to \$5.4 million in the budget year.

**Office of Tourism.** The budget proposes to eliminate funding of \$7.5 million (GF) for the Agency's Tourism Division.

## **GENERAL GOVERNMENT**

Departments with reductions or augmentations other than normal operating expenses or elimination of vacant positions are highlighted.

## 8260 California Arts Council

The California Arts Council (CAC) budget was funded at \$49.7 million in 2001-02 and \$21.5 million in the current year. Most of this reduction (\$20 million) was attributable to no funding provided for district-specific projects. In addition, local grants were reduced by \$9 million. The budget proposes expenditures of \$13.6 million in the budget year.

### **Issues**

**Arts in Education Program.** Under the program, the state assists artists and arts organizations to enhance the capacity of California schools to teach the arts and to use the arts to teach other subject matters. The budget provided \$7.2 million (General Fund) in local augmentations for this program in the current year. The budget proposes to reduce this amount by \$2.7 million (40 percent) in the budget year.

**Organization Support Grants.** This program provides matching grants that leverage local private and public dollars for over 800 arts organizations throughout the state. This program was funded at \$10.9 million in 2001-02 and \$7.6 million in the current year. The budget proposes to reduce funding by \$3.0 million (40 percent) for funding of \$4.4 million in 2003-04.

## 8380 Department of Personnel Administration

The Department of Personnel Administration manages the nonmerit aspects of the State's personnel system.

### **Issues**

**Rural Health Care Equity Program.** This program subsidizes additional health care costs for state employees and annuitants that live in areas with no managed care. The budget proposes to eliminate the program for annuitants for savings of \$11.5 million in the current and budget year. The program for state employees is subject to collective bargaining.

The Senate and Assembly both rejected the proposal to eliminate this funding in the current year in the First Extraordinary Session.

## 8885 Commission on State Mandates

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. Support costs for the department are proposed at \$1.3 million in 2003-04.

### **Issues**

**State Mandated Local Cost Reimbursement.** The 2002-03 budget deferred payments to local governments for state-mandated local programs. The mandates are still in effect and the Constitution requires the state to reimburse local agencies for these costs including interest on the deferred amount. This deferral includes reimbursements for 2002-03 mandate claims, prior-year deficiencies, and newly identified mandate claims. The LAO estimates the state's costs to pay these deferred claims will total about \$800 million.

The proposed budget requests continued deferral of local reimbursement payments. The LAO estimates that the deferral of these payments will total \$1.2 billion at the end of the 2003-04 fiscal year. If these mandates are not suspended, the costs will continue to be a state obligation.

## 9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Relief proposed in 2003-04 is \$1.6 billion, or 50.2 percent, less than the amount provided in 2002-03. This decline is due to the elimination of Open Space Subventions and the elimination of the general-purpose backfill to local governments of the Vehicle License Fee (VLF) offsets.

<b>Summary of Expenditures</b> (dollars in thousands)	2002-03	2003-04	\$ Change	% Change
Senior Citizens' Property Tax Deferral	\$12,800	\$11,900	-\$900	-7.0
Senior Citizens' Property Tax Assistance	36,501	37,961	1,460	4.0
Senior Citizen Renters' Tax Assistance	151,735	157,805	6,070	4.0
Homeowners' Property Tax Relief	414,213	419,600	5,387	1.3
Open Space Subventions	39,000	0	-39,000	-100.0
Substandard Housing	44	44	0	0.0
Vehicle License Fee Offset	2,585,291	987,014	-1,598,277	-61.8
State-Mandated Local Programs	3	3	0	0.0
<b>Total</b>	<b>\$3,239,587</b>	<b>\$1,614,327</b>	<b>-\$1,625,260</b>	<b>-50.2</b>

### Issues

**Vehicle License Fee Subventions to Cities and Counties.** The budget proposes to eliminate the VLF backfill to cities and counties commencing in February 2003 for current year savings of \$1.3 billion and budget year savings of \$2.9 billion. The budget does not eliminate the backfill for county realignment funds or funds related to the Orange County bankruptcy. The Senate and Assembly both rejected the proposal to eliminate the current year VLF backfill in the First Extraordinary Session.

The budget does not propose increasing the VLF to ensure that both the state and local governments are held harmless. The Senate approved AB 1105 in August 2002 and AB 4 X in the First Extraordinary Session in 2003, which would have clarified the mechanism for reducing the VLF offset if there is a shortfall in General Fund revenues available to reimburse local governments. This would result in annual General Fund savings of approximately \$3.8 billion when there are insufficient General Fund revenues. The Governor stated that he would veto AB 4 X, but at the time this report was prepared that had not occurred.

**Open Space Subventions.** This program allows cities and counties to contract with landowners to limit the use of land to agricultural, scenic, and open space purposes. In exchange, these properties are assessed at other than market value based on their limited use. The budget proposes to eliminate subventions in the current year for savings of \$39 million (GF).

## 9210 Local Government

The Local Government Finance item proposes \$330 million in funding for local agencies. The state provides other assistance to local governments, primarily counties, through other direct programs budgeted in other items in the budget. Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is included in Public Safety for such issues as local crime labs and suppression of high intensity drug trafficking areas.

<b>Summary of Expenditures</b> (dollars in thousands)	2002-03	2003-04	\$ Change	% Change
High-Technology Grants for Local Law Enforcement	\$18,500	\$18,500	0	0.0
Reimbursement for Booking Fees	38,220	0	-38,220	-100.0
Property Tax Loan Program	51,500	60,000	8,500	16.5
Rural and Small County Law Enforcement	18,500	18,500	0	0.0
Citizens' Option for Public Safety (COPS)	232,600	232,600	0	0.0
Special Supplemental Subventions	1,400	0	-1,400	-100.0
State-Mandated Local Programs	0	0	0	0.0
Local Grants	750	850		
<b>Total</b>	<b>\$361,470</b>	<b>\$330,450</b>	<b>-\$31,020</b>	<b>-8.6</b>

### Issues

**Redevelopment Agencies.** The budget proposes a transfer of \$250 million or the growth in property tax revenues for redevelopment agencies to ERAF in 2003-04. This would reduce General Fund appropriations to K-14 education by the same amount. This transfer is proposed to increase to the full amount of “diverted “ redevelopment agency property tax allocation (approximately \$1.3 billion) over time.

The budget also proposes a property tax transfer of \$500 million from the low and moderate income housing funds of local redevelopment agencies to ERAF in the current year. Redevelopment agencies (unlike cities, counties, and special districts) did not receive any state “bail-out” or property tax transfers from school districts as a result of the enactment of Proposition 13. The Senate rejected this proposal in the First Extraordinary Session.

**Booking Fees.** The budget proposes elimination of \$38.2 million (GF) in booking fee reimbursements in the budget year.

**Funds for Counties for Administration of the Property Tax.** The budget proposes funding of \$60 million to assist counties with the administration of the property tax. This program has traditionally resulted in expenditures of about \$51 million.

**Citizens’ Option for Public Safety (COPS) and Juvenile Crime Prevention Programs.** The COPS program funds local law enforcement, sheriffs’ departments for jail construction and operations, and district attorneys for prosecution. In 2000, this program was expanded to include funding for county juvenile crime prevention programs. Funding for this program is extended for one more year at the current-year level of \$232.6 million.

**Technology Grants for Local Law Enforcement.** The budget extends funding of \$18.5 in one-time funding for local law enforcement agencies to purchase high-technology equipment for crime prevention and suppression into 2003-04. This program was funded at \$35.4 million in 2001-02..

**Rural and Small County Law Enforcement Grants.** As part of the 2001-02 budget compromise, an annual appropriation of \$18.5 million was provided in statute to provide grants to county sheriffs in the 37 smallest counties. Each county received a grant of \$500,000.

## **9800    Augmentation for Employee Compensation**

The budget proposes savings of \$855 million (\$470 million GF) for deferring scheduled salary increases, lowering or freezing future salary or benefit expenditures, layoffs, furloughs, and other similar personnel actions. Most of these savings are dependent upon collective bargaining agreements.

# GENERAL GOVERNMENT

## OVERVIEW

The departments, boards, and commissions under Subcommittee 2's jurisdiction are:

- Office of Emergency Services (OES)
- Native American Heritage Commission (NAHC)
- California Horse Racing Board (CHRB)
- Department of Food & Agriculture (CDFA)
- Seismic Safety Commission (SSC)
- California Law Review Commission (CLRC)
- Commission on Uniform State Laws (CUSL)

The CHRB, and the NAHC all have reasonable reductions or fund shifts proposed and will not be discussed. The OES, the CDFA, the SSC, the CLRC, and the CUSL all have significant proposals that warrant discussion.

## 0690 Office of Emergency Services

The Office of Emergency Services (OES) coordinates emergency activities to save lives and reduce property losses during disasters and acts as the state's conduit for federal assistance related to recovery from disasters. OES provides leadership assistance and support to state and local agencies in planning and preparing for the most effective use of federal, state, local, and private resources in emergencies. The emergency planning is based on a system of mutual aid in which a jurisdiction first relies on its own resources and then call for assistance from its neighbors.

The budget proposes total expenditures of \$651.9 million (\$58.8 million General Fund) for state operations and local assistance, a decrease of \$71.5 million (9.9 percent) below the current year. As can be seen in the table below, the majority (\$66 million) of this reduction is due to a decrease in federal funds. In the last several years, the federal government has used an accelerated payment schedule in order to pay out existing disaster claims. As a result of this effort, the number of claims for disaster assistance is anticipated to decrease in the budget year.

<b>Summary of Expenditures</b> (dollars in thousands)	2002-2003	2003-2004	\$ Change	% Change
General Fund	\$56,110	\$50,847	-\$5,263	-9.4
Other Funds	4,720	3,798	-922	-19.5
Federal Trust Fund	660,511	595,178	-65,333	-9.9
Reimbursements	2,113	2,113	0	0.0
<b>Total</b>	<b>\$723,454</b>	<b>\$651,936</b>	<b>-\$71,518</b>	<b>-9.9</b>

### Highlights

**General Fund Reductions.** The budget proposes General Fund reductions of \$8.1 million in the budget year. Most of the reduction is attributed to \$5.1 million in reduced local assistance, although the

remaining \$3 million will cause significant staff reductions in the Pasadena office and North Coast office, including the elimination of the Annual Earthquake Campaign and the Dam Safety Program. The office states that these reductions will “severely hinder OES’s public safety mission and its ability to fulfill its proactive role in a manner that the public has rightfully come to expect.”

## 8570 Department of Food and Agriculture

The department promotes and regulates the state's agricultural industry through:

- Eradication and control of harmful plant and animal pests and diseases.
- Marketing, exporting, and other related assistance for various agricultural commodities.
- Assurance of true weights and measures in commerce.
- Financial and administrative assistance to the state's 80 district, county, and citrus fairs.

The budget proposes total expenditures of \$269.3 million (\$86.6 million General Fund) a decrease of \$32.3 million (10.7 percent) from the current-year budget.

<b>Summary of Expenditures</b> (dollars in thousands)	2002-2003	2003-2004	\$ Change	% Change
<b><i>State Operations &amp; Local Assistance</i></b>				
General Fund	\$91,970	\$86,598	-\$5,372	-5.8
Agriculture Fund, Totals	96,645	93,381	-3,264	-3.4
Agricultural Export Promo Acct	600	600	0	0.0
Fairs and Exposition Fund	19,238	19,826	588	3.1
Satellite Wagering Account	12,663	12,599	-64	-0.5
Harbors & Watercraft Rev Fund	989	1,171	182	18.4
Agriculture Building Fund	1,606	1,606	0	0.0
Agriculture Building Fund, Sect. 625	90	90	0	0.0
Less expenditures already reflected in other appropriations for CDFA	(1,696)	(1,696)	0	0.0
Other Funds	1,466	1,000	-466	-31.8
Federal Trust Fund	65,891	42,681	-\$23,210	-35.2
Reimbursements	8,498	7,638	-860	-10.1
Pierce's Disease Management Account	20,736	20,936	200	1.0
Less Funding Provided by the General Fund/Federal Trust Fund	(17,396)	(17,403)	(7)	0.0
<b>Total</b>	<b>\$301,300</b>	<b>\$269,027</b>	<b>-\$32,273</b>	<b>-10.7</b>

### Highlights

**Hawaii Medfly Rearing Facility.** The CDFA is requesting \$11 million for a new Medfly Rearing Facility to help increase and stabilize sterile medfly production for the PRP. The department currently relies on a combination of one production facility operated by itself and two United States Department of Agriculture (USDA) facilities in Hawaii and Guatemala. The department contends that rising demand for USDA medflies and the debilitated condition of its current production facility has made supplying the PRP difficult. This



project would double medfly production by building a second production facility which would provide a sufficient and stable source of medflies for the PRP. The department estimates that it will cost an additional \$1.9 million to equip the facility and \$1.35 million in annual ongoing operating costs.

**General Fund Reductions.** The budget proposes just under \$5 million in General Fund reductions to various programs in this department. The impacted programs include the Weed and Vertebrate Program, the Biological Control Program, Agriculture Inspection Stations, and the “Buy California” Program.

**Agriculture Fund Loan Extension.** The budget proposes extending repayment of a \$15 million loan to the General Fund last year 2004-05.

### **Issues**

**Medfly Preventive Release Program.** The budget proposes \$8.9 million from the General Fund and 138 positions to provide for Mediterranean Fruit Fly (medfly) preventative control efforts on an ongoing basis. The department began efforts to control the impact of the medfly on California’s agricultural industry in 1975. Since 1980, the state has spent around \$150 million from the General Fund to support this effort, with a similar amount provided by the federal government.

The current Preventative Release Program (PRP) began in 1996 and involves raising sterile medflies and releasing them throughout a 2,500 square mile area in the Los Angeles Basin. Total program costs are approximately \$18 million annually, shared equally between the state and federal government. The Legislature approved this as a five-year program with a June 30, 2001 sunset date. In both FY 2001-02 and FY 2002-03, the program was extended on one-year basis.

Two years ago, the Legislature directed CDFA to provide information detailing how the funding source for the PRP could be shifted in whole, or in part from the General Fund to the Agriculture Fund. A report was requested, due January 10, 2002, from the department to investigate alternative funding sources for the program. The PRP was funded for that budget year.

Last year, the department did not submit the report. The LAO recommended legislation to develop an assessment program that would equitably distribute half of the cost of the PRP across those industries that most benefit from the absence of the medfly, with the other half coming from the General Fund. The Legislature again requested a report for alternative funding sources for this program. The department agreed to contract with the University of California to study alternative funding sources for the PRP. The Legislature then reluctantly approved \$9.2 million for the program on a one-year basis.

This year, the Administration proposes a \$8.9 million budget for the PRP and to make it a permanent expenditure of the General Fund. Also proposed in the budget is capital outlay project of \$11 million for a new Medfly Rearing Facility in Hawaii to be funded by the General Fund (see **Highlights** section below).

Until the Legislature receives a report from the department, it is extremely difficult to consider any alternative revenue source for the PRP. In light of the condition of the General Fund and the lack of responsiveness by the department to Legislative requests for the past two years, the Legislature should consider delaying approval for the PRP program and the related capital outlay project until a assessment proposal or alternative revenue source can be secured for the long term viability of this program.

## **8690 Seismic Safety Commission**

The Seismic Safety Commission was established to improve earthquake preparedness and safety in California. Specifically, the commission is responsible for providing a consistent framework for earthquake-related programs and coordinating the administration of these programs throughout the state government. The 17-member commission performs policy studies, reviews programs, investigates earthquake incidents, and conducts hearings on earthquake safety. The commission advises the

Legislature and the Governor on Legislative proposals, the state budget, and grant proposals relating to earthquake safety.

The budget proposes total expenditures of \$959,000 (\$0 General Fund) a decrease of \$197,000 (17 percent) from the current-year budget.

<b>Summary of Expenditures</b> (dollars in thousands)	2002-2003	2003-2004	\$ Change	% Change
General Fund	\$881	\$0	-\$881	-100.0
Insurance Fund	0	884	884	0.0
Earthquake Emergency	100	0	-100	-100.0
Investigations Account				
Reimbursements	175	75	-100	-57.1
<b>Total</b>	<b>\$1,156</b>	<b>\$959</b>	<b>-\$197</b>	<b>-17.0</b>

### **Highlights**

**Funding for the Seismic Safety Commission.** The budget proposes shifting funding support for the commission from the General Fund to the Insurance Fund. The insurance fund would raise the additional revenue through a proposed earthquake insurance policy fee of \$1 per policy sold statewide.

## **8830 California Law Revision Commission**

The primary objective of the California Law Revision Commission is to make recommendations to the Governor and the Legislature for revision of the law. The CLRC assists the Governor and the Legislature in keeping the law up to date by studying complex subjects, identifying major policy questions for legislative attention, gathering the views of interested persons and organizations, and drafting recommended legislation for consideration.

### **Issues**

**Elimination of the Commission.** The CLRC is proposed for elimination. Last year, the commission was funded through the General Fund for \$660,000 and has 5 staff positions. The CLRC provides an commonly unknown, yet valuable service to the Legislature, most recently in recommending code changes to facilitate municipal and superior court consolidation in California, amongst other projects. In light of the condition of the General Fund, possible reductions of \$95,000 for the budget year have been identified as an alternative to elimination.

## **8840 Commission on Uniform State Laws**

In conjunction with other states, the Commission on Uniform State Laws (CUSL) drafts and presents to the Legislature uniform laws deemed desirable and practicable by the National Conference of Commissioners on Uniform State Laws for adoption by various states.

### **Highlights**

**Elimination of the Commission.** The CUSL is proposed for elimination. Last year, the commission was funded through the General Fund for \$138,000.

# JUDICIARY

## 0250 Judicial

The Judicial budget includes support for the California Supreme Court , the courts of appeal , and the Judicial Council of California. There are 105 appellate court justices and seven Supreme Court justices. The Judicial Council, including the Administrative Office of the Courts, is the administrative and policy-making body of the judiciary.

The budget proposes total expenditures of \$344.8 million for the Judicial branch. This amount is an decrease of \$483,000, or 0.1 percent, below the current year. General Fund support would increase by \$348,000, or 0.1 percent, for a total of \$289.4 million. Of the total proposed, \$38 million is for the Supreme Court, \$172 million is for the operation of the Courts of Appeal, \$142.2 million is for the Judicial Council, and \$10.4 million is for the California Habeas Corpus Resource Center. Total authorized positions for the four entities would increase by 2.

<b>Summary of Expenditures</b> (dollars in thousands)	2002-03	2003-04	\$ Change	% Change
General Fund	\$289,061	\$289,409	\$348	0.1
Motor Vehicle Account	137	135	-2	-1.5
Court Interpreters Account	84	84	0	0.0
Family Law Trust Fund	3,019	3,019	0	0.0
Federal Trust Fund	4,700	4,710	10	0.2
Judicial Branch Workers' Compensation Fund	0	3		
Reimbursements	48,327	47,485	-842	-1.7
<b>Total</b>	<b>\$345,328</b>	<b>\$344,845</b>	<b>-\$483</b>	<b>-0.1</b>

### ***Highlights***

#### **Current-Year Savings Assumed in the Budget**

- An unallocated General Fund reduction of \$8.5 million, or 2.9 percent of the total General Fund budget.

#### **Budget Year Reduction**

- A reduction of \$17.7 million, or 5.1 percent of total funding for the judiciary. During the budget process, the Judicial Council will provide a plan for allocating these reductions.

**Proposed Increase**

- \$635,000 within the AOC to implement the Trial Court Interpreter Employment and Labor Relations Act.

***Selected Issues***

**Appellate Filing Fee Increase.** The budget proposes legislation to increase the appellate filing fee from \$265 to \$630, effective July 1, 2003. This increase would result in \$2.1 million in revenues to the General Fund. The Legislature may wish to consider the impact of this increase, which would make California's appellate filing fee the highest in the country.

**Unallocated Reduction.** As noted above, the budget proposes a reduction of \$17.7 million for the budget year. For the current year, the AOC has indicated that it will achieve the necessary savings of \$8.5 million, through holding positions vacant, delaying employee promotions and reclassifications, restricting travel, reducing temporary help, deferring contracts, and reducing the number of Judicial Council and Advisory Committee meetings. During the budget process, the Judicial Council will be providing the Legislature with a plan for the allocation of the \$17.7 million in budget year reductions. The Legislature may wish to review the allocation of the reductions to help insure that the reductions are appropriate and limit adverse impacts on access to justice.

**0390 Contributions to Judges' Retirement System**

The Judges' Retirement System (JRS I) funds retirement benefits for justices and judges of the Supreme Court, the courts of appeal, and superior courts. Retirement benefits are based on age, years of service, compensation of active judges, and eligibility as determined by specific sections of the Judges' Retirement Law. The JRS I is funded by the Judges' Retirement Fund, which receives revenue from the General Fund and certain filing fees, as well as employee contributions equal to 8 percent of the judges' salaries.

Chapter 879, Statutes of 1994, established the Judges' Retirement System II (JRS II). Unlike its predecessor, JRS II is designed to be fully funded from employer and employee contributions on a prospective basis. The major differences for JRS II include an increased retirement age and a cap on COLAs for retirement benefits of 3 percent annually. All judges elevated to the bench on or after November 9, 1994 are required to participate in JRS II. There are currently 1,610 authorized judges and justices in the state of California. The majority of these judges participate in the JRS I plan.

The number of retired annuitants is projected to increase by 34 to a total of 1,553. The budget proposes expenditures of \$121.7 million.

**0450 State Trial Court Funding**

The Trial Court Funding item provides state funds for support of the state's local trial courts. Since the passage of Proposition 220 on the June 1998 ballot, which allowed for the unification of the superior and municipal courts in a county, the court systems in all 58 counties have unified.

The proposed total budget for the state's trial courts is \$2.2 billion. This amount is a decrease of \$5.2 million, or 0.2 percent, from the current year. The General Fund portion is proposed to decrease by \$301.3 million from \$1.1 billion to \$791 million. The major factor for the decrease is the proposed \$300 million realignment of court security.

<b>Summary of Expenditures</b> (dollars in thousands)	2001-02	2002-03	\$ Change	% Change
General Fund	\$1,092,413	\$791,146	-\$301,267	-27.6
Trial Court Improvement Fund	136,745	109,132	-27,613	-20.2
Other Sources	980,110	1,303,763	323,653	33.0
<b>Total</b>	<b>\$2,209,268</b>	<b>\$2,204,041</b>	<b>-\$5,227</b>	<b>-0.2</b>

### **Highlights**

#### **Current Year Savings Assumed in the Budget**

- An unallocated reduction of \$36 million.

#### **Budget Year Reduction**

- An unallocated reduction of \$116 million, or 5.3 percent of the total trial court funding budget. During the budget process, the Judicial Council will provide a plan for allocating this proposed reduction.

#### **Other Adjustments:**

- Savings of \$300 million General Fund by providing a dedicated revenue source for court security. Under this realignment proposal, a portion of the tax increases totaling \$300 million would be transferred to the Trial Court Trust Fund for court security purposes, resulting in a savings of \$300 million General Fund.
- A reduction of \$22 million by allowing courts to contract with various sworn law enforcement agencies to provide security in the courts.
- A reduction of \$31 million for implementing electronic recording of court proceedings and \$5.5 million in savings related to court ownership of transcripts.
- An increase of \$20 million to pay for increased court staff retirement costs.
- An increase of \$32.6 million for ongoing courthouse security costs related to increases in the contractual costs of negotiated salary increases and for increased benefits and retirement contributions.
- An increase of \$4.5 million for anticipated court interpreter workload growth.
- An increase of \$3.9 million to implement the Trial Court Interpreter Employment and Labor Relations Act. The Act requires the trial courts to employ spoken language interpreters as court employees rather than independent contractors on or after July 1, 2003.

#### **Revenue Adjustments:**

- **Various Fee Increases.** The budget assumes revenues of \$66.2 million from new and increased fees to offset General Fund support for the trial courts. The fees include a \$20 court security fee per court

filing (\$34 million), increasing the trial motion fee from \$23 to \$33 (\$1.2 million), and transferring various undesignated fees on court related activities from the counties to the courts (\$31 million).

### ***Selected Issues***

**Undesignated Fees.** The Lockyer-Isenberg Trial Funding Act of 1997 (Chapter 850, Statutes of 1997) and other recent trial court funding legislation made changes in the distribution and amount of court-related fees. An important part of the financing mechanism for the state's new fiscal responsibility for the trial courts was the requirement that local governments transfer a variety of court-related fees collected by trial courts and local governments to the state's trust fund. However, Chapter 850 did not designate which entity--the state or local governments--would retain a number of court-related fees. Some of the undesignated court fees include fees for postponement, change of venue, filing for Writ of Execution, and the civil assessment fee. The amount of each fee varies from \$1, to as much as \$1,000.

The budget proposes to transfer a portion of those undesignated fees from counties to courts. The Legislature may wish to review the proposal to ensure that the proposed fees are related to court-related activities and that the proposed transfer of fees makes sense from a policy perspective.

**Electronic Recording.** As noted above, the budget proposes savings of \$31 million for implementing electronic recording for certain court proceedings and \$5.5 million in savings related to court ownership of transcripts. The Legislature may wish to review the estimates for savings and consider the policy implications of implementing electronic recording.

**Court Security.** Court security costs for the trial courts have increased in the last several years. The proposed budget includes several measures intended to provide additional revenues and flexibility for security services. Specifically, the budget proposes a General Fund reduction of \$34 million, and a projected increase of \$34 million in revenues generated by collecting a security surcharge fee in all civil cases, and in all criminal cases that result in a conviction. The budget also assumes savings related to a change in law that would allow local courts to contract with law enforcement agencies, other than the county sheriff, for court security. Finally, the budget proposes that \$300 million from new taxes offset General Fund expenditures for court security.